

State of Rhode Island Revenue Brief

FY 2007 Cash Collections through October 2006

Beginning in FY 2004, the State of Rhode Island Budget Office presented a more comprehensive assessment of fiscal year-to-date revenue collections. In particular, the Revenue Brief now contains information on the Other General Revenue Sources. These sources include the Gas Tax Transfer, Other Miscellaneous Revenues, the Lottery Transfer, and the Unclaimed Property remittance.

Users of the report should be cautious when comparing year-to-date growth rates to the revised growth estimate for Other Miscellaneous Revenues and Unclaimed Property as the receipt of these revenues is not continuous. That is, for these two general revenue categories, payments are received at discrete points in time over the course of a fiscal year. Further complicating matters is the fact that the discrete pattern of receipts varies so that payments received do not necessarily occur at the same point in time in each fiscal year.

Total General Revenues

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.8 %	8.4 %	5.0 %

Fiscal Year 2007 total general revenues collected through October 2006 have increased by 8.4 percent as compared to Fiscal Year 2006 total general revenues collected through October of last year. For the fiscal year-to-date period through October 2006, total general revenues were \$932.6 million as compared to \$860.2 million for the same period last year, an increase of \$72.4 million. Due to various causes, which are detailed below, adjustments need to be made to the fiscal year-to-date data for both FY 2006 and FY 2007.

In fiscal year 2007, the Division of Lottery made an early transfer \$20.0 million in October that it would normally have transferred in November. In addition, the Tax Amnesty run from July 1, 2006 through September 31, 2006 brought in \$6.5 million in late and overdue taxes identified as general revenues as well as \$3.1 million in departmental receipts for interest on overdue taxes. Amnesty estimates cited in the *September 2006 Revenue Brief* have been revised slightly downward as a result of the information provided by the Division of Taxation at the November 2006 Revenue Estimating Conference differentiating general revenues from other revenues as well as taxes from interest on taxes.

In fiscal year 2006, motor vehicle revenues were understated by \$2.3 million due to the late posting of interstate trucking payments that are made to the forty-nine other states and Canada. Until FY 2005, this posting was made in June of the fiscal year. Beginning in FY 2005, this posting was not done until the following fiscal year. This pattern of late posting continued in FY 2006 and FY 2007. The FY 2006 payments were made in August 2006, resulting in FY 2007 motor vehicle license and fees being understated by \$2.4 million.

Further, in FY 2006, taxes on insurance companies were understated by \$442,445 due to the late transfer of FY 2005 retaliatory fees. For the previous nine fiscal years, this transfer was made in June. For FY 2005, however, these fees were not transferred until August 2005. As a result, this transfer was reflected as a reduction of insurance companies revenues in fiscal year-to-date 2006. Also in FY 2006, the motor fuel tax was overstated by \$974,102 as a result of the Division of Taxation filing a proof of claim in a bankruptcy proceeding in FY 2005. This revenue was accrued back to FY 2005 but shows as positive revenue in year-to-date FY 2006.

Accounting for these revenue adjustments yields an adjusted rate of growth for the fiscal year-to-date period through October 2006 of 5.0 percent. It should be noted that the adjusted year-to-date growth rate is not necessarily indicative of the projected annual growth. The FY 2007 growth estimate is an increase of 3.8 percent in total general revenues over preliminary FY 2006 collections.

Taxes and Departmental Receipts

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.0 %	6.2 %	5.1 %

The State of Rhode Island Budget Office reports that FY 2007 taxes and departmental receipts collected through October 2006 have increased by 6.2 percent as compared to FY 2006 collections for the comparable period a year ago. For the fiscal year-to-date period ending October 2006, total taxes and departmental receipts were \$829.9 million as compared to \$781.1 million for the same period last fiscal year, an increase of \$48.8 million.

The insurance companies retaliatory fee transfer, the motor vehicle licenses and fees late interstate trucking payments, and the one-time "proof of claim" receipt for a bankruptcy proceeding in the motor fuel tax, decrease FY 2006 taxes and departmental receipts on an adjusted basis by \$1.7 million. The late posting of motor vehicle licenses and fees, interstate trucking payments in August 2006, and Tax Amnesty receipts increases FY 2007 taxes and departmental receipts by \$7.2 million on an adjusted basis. Accounting for these modifications yields a FY 2007 adjusted growth rate in taxes and departmental receipts of 5.1 percent. The FY 2007 preliminary growth estimate projects an increase of 2.0 percent in total taxes and departmental receipts over preliminary actual FY 2006 collections.

Other General Revenue Sources

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	17.5 %	29.9 %	4.6 %

FY 2007 other general revenue sources collected through the first four months of FY 2007 have increased by 29.9 percent as compared to collections through the first four months of fiscal year 2006. The FY 2007 growth estimate for other general revenue sources projects an increase of 17.5 percent in other general revenue sources over preliminary FY 2006

collections. For the fiscal year-to-date period ending October 2006, total other general revenue sources were \$102.7 million as compared to \$79.1 million for the same period last year, an increase of \$23.6 million.

Total Taxes

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	1.9 %	6.5 %	5.7 %

Total tax revenues for the fiscal year-to-date period through October 2006 were \$772.6 million, or 6.5 percent more than the \$725.6 million in total taxes collected in FY 2006 through October 2005. Listed below are the modifications that must be made to determine the adjusted growth rate for total taxes.

The Tax Amnesty program resulted in late tax payment and overdue interest collections totaling \$9.6 million, of which \$6.5 million are general revenue taxes. These collections were mainly posted in September 2006 and October 2006 and contribute to the increase in October fiscal year-to-date total taxes. In FY 2007, motor vehicle license and fee revenues are underreported by \$2.4 million due to the late payment of FY 2006 interstate trucking fees.

In FY 2006, motor vehicle license and fee revenues were underreported by \$2.3 million as a result of the late payment of FY 2005 interstate trucking fees. Also, in FY 2006 insurance companies gross premiums taxes were understated by \$442,445 due to the late transfer of FY 2005 retaliatory fees and \$974,102 of motor carrier fuel use revenues accrued back to FY 2005 due to a bankruptcy proceeding.

These modifications yield an adjusted growth rate 5.7 percent in total taxes. The FY 2007 growth estimate for total tax collections is 1.9 percent for FY 2007 tax collections over preliminary FY 2006.

Personal Income Taxes

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	5.5 %	11.0 %	10.1 %

Actual personal income tax collections for FY 2007 through October 2006 are up \$32.8 million, or 11.0 percent, compared to the same period last fiscal year. The FY 2007 year-to-date growth rate exceeds the enacted FY 2007 over preliminary FY 2006 growth rate of 5.5 percent in personal income tax collections. The Tax Amnesty program, ending September 30, 2006, has contributed to this increase with \$2.7 million in personal income tax collections.

Income tax withholding payments have grown by \$11.6 million, or 4.6 percent, through the first four months of FY 2007 when compared to the same period in FY 2006. This growth reflects unusually large withholding payments collected from a taxpayer in September 2006, totaling \$10.8 million. The preliminary cash growth rate estimate for income tax withholding

payments is 7.0 percent. On average, over the past five fiscal years, 30.3 percent of income tax withholding payments are collected in the first four months of the fiscal year.

FY 2007 year-to-date income tax refunds paid are less by \$7.5 million, or 25.3 percent, compared to the same period in FY 2006. The 25.3 percent actual growth in cash income tax refunds paid between FY 2007 and FY 2006 is higher than the preliminary cash growth rate for income tax refunds paid of 10.4 percent. In spite of this surge in income tax refunds paid, on average over the last five fiscal years only 9.9 percent of total income tax refunds are paid in the first four months of the fiscal year.

There has been a decrease in final income tax payments received. Fiscal year-to-date final income tax payments are down \$2.8 million, or -12.8 percent, through October of FY 2007 as compared to final payments for the first four months of FY 2006. The -12.8 percent actual growth in cash final income tax payments received between FY 2007 and FY 2006 is substantially less than the Preliminary cash growth rate for final income tax payments received of 9.8 percent. Despite this sizeable difference in growth rates, the decrease in final income tax payments received is minor and of little consequence given that, on average, over the last five fiscal years only 9.5 percent of total final income tax payments are received in the first four months of the fiscal year.

Finally, with respect to estimated income tax payments, year-to-date FY 2007 collections are up \$4.2 million from FY 2006 collections at this time last year. This increase translates into a fiscal year-to-date growth rate of 7.7 percent. The 7.7 percent actual growth in cash estimated income tax payments received between FY 2007 and FY 2006 is higher than the preliminary cash growth rate for estimated income tax payments received of 0.0 percent. The growth in estimated income tax payments is positive and notable, as on average, over the last five fiscal years 26.1 percent of total estimated income tax payments are made by the end of October.

Sales and Use Taxes

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	5.8 %	2.1 %	1.1 %

Sales and use tax collections in FY 2007 are up \$6.5 million, or 2.1 percent, relative to last fiscal year at this time. The Division of Taxation reports \$3.1 million of sales and use tax was collected attributable to Tax Amnesty through October 2006. As always, the monthly sales tax receipts reported here reflect the prior month's retail sales activity. For both FY 2006 and FY 2007, the state's sales tax rate is 7.0 percent. The 2.1 percent growth in sales and use tax revenues for fiscal year-to-date 2007 lags the enacted FY 2007 over preliminary FY 2006 sales and use tax collections growth rate of 5.8 percent.

According to the Division of Taxation, within the sales tax components, registry receipts were down 10.3 percent in the first four months of FY 2007 when compared to same period last fiscal year. According to the Department of Revenue, other states have also been reporting a decline in sales tax from car registrations. Net sales tax receipts remitted directly to the

Division of Taxation posted a gain of 2.7 percent during FY 2007's first four months versus the first four months of FY 2006. Providence Place Mall (PPM) sales tax receipts were up 10.5 percent through October of FY 2007 versus the same period in FY 2006.

General Business Taxes

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-13.1 %	30.2 %	27.4 %

In general, it is not possible at this time to begin to discern patterns in this year's general business tax collections. Most general business taxes are paid in March and June of the fiscal year, with 40.0 percent of total tax liability due in March and 60.0 percent of total tax liability due in June. The exception to this pattern is business corporations taxes and health care provider assessments. In the FY 2002 to FY 2006 period, an average of 15.1 percent of total business corporations taxes were collected by the end of October, down from 19.2 percent through September. This drop in the average proportion of taxes received is due to refunds of business corporation tax, many of which are frequently paid in October. The health care provider assessment collections flow more evenly into the general fund over the course of the fiscal year, averaging 30.3 percent through October for the past five years.

Total general business taxes collected in the fiscal year-to-date October 2006 period were \$52.4 million, or \$12.1 million more than the \$40.3 million collected for the same period in FY 2006. Year-to-date growth in FY 2007 is 30.2 percent. In August of FY 2006, \$442,445 attributable to FY 2005 was transferred out of insurance companies taxes, requiring an adjustment to general business taxes. The Tax Amnesty program resulted in general business tax collections of \$549,775 posted through October 2006. As a result, adjusted FY 2007 growth in general business taxes is 27.4 percent. The enacted growth estimate for FY 2007 is -13.1 percent over FY 2006 preliminary collections.

FY 2007 year-to-date business corporations taxes are up \$11.0 million, or 55.9 percent, from last fiscal year at this time. Business corporations tax collections of \$227,291 were due to the Tax Amnesty. Health care provider assessment taxes through October 2006 were \$15.1 million, a decrease of 1.7 percent through the same period in FY 2006. The Tax Amnesty brought in \$235,230 of late health care provider assessment taxes. No bank deposit taxes were received through the first four months of FY 2006 but \$55,070 were collected through October in FY 2007. They tend to post irregularly until March, when the first 60.0 percent of total tax liability is due. Year-to-date October 2006 financial institutions taxes collected are up \$629,684 compared to collections for the comparable period last year.

The insurance companies tax is down 291.3 percent year-to-date. This decrease is primarily due to the late transfer in FY 2006 of \$442,445 in retaliatory fees claimed on insurance companies taxes collected for the 2004 calendar year. These fees should have been posted in FY 2005 when the insurance companies' tax returns were collected. Instead, the retaliatory fees were transferred late, during FY 2006, creating an understatement in year-to-date collections through October 2005. This understatement in FY 2006 overshadows the

additional insurance companies tax collections in FY 2007 from the Tax Amnesty of \$78,056. Adjusting for the late transfer results in a growth rate of -154.2 percent through October 2006.

Public utilities gross earnings taxes are up 20.4 percent. In September 2005, a public utilities gross earnings tax filer paid \$5.0 million in taxes related to FY 2005 in order to meet "safe harbor" provisions for its tax year 2005 estimated liability. In calendar year 2004, the public utility's gross earnings liability was \$29.3 million. In March 2005, an estimated payment of \$10.4 million was made and in June 2004 another estimated payment of \$14.0 million was made. In order to meet the "safe harbor" the public utility paid an additional \$5.0 million in September 2005. In August 2006 the public utility again paid \$5.6 million to help meet the "safe harbor" for its tax year 2006 estimated liability. Public utilities gross earnings taxes were enhanced by an additional \$9,198 which was collected as part of the Tax Amnesty program.

Excise Taxes Other Than the Sales and Use Tax

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-2.2 %	-6.3 %	-4.4 %

Excise taxes other than sales and use taxes collected in the fiscal year-to-date October 2006 period totaled \$57.8 million or \$3.9 million less than the \$61.6 million collected for the same period in FY 2006. In FY 2007, June 2006 interstate trucking payments were made in August 2006 causing an understatement of \$2.4 million. In FY 2007 motor vehicle license and fee revenues are understated for the third straight year.

In FY 2006, motor vehicle receipts were understated by \$2.3 million for July 2005 due to a delay in the posting of June 2005 interstate trucking payments by the Division of Motor Vehicles. Additionally, in FY 2006, motor fuel receipts were higher by \$974,102 as the result of a "proof of claim" payment made to the State for an FY 2005 bankruptcy proceeding. Thus, what appears to be \$3.8 million less in revenue between fiscal year-to-date 2007 and fiscal year-to-date 2006 collections, is actually \$2.8 million less in revenue between the two periods. Adjusting for the above postings yields an adjusted growth rate of -4.4 percent in excise taxes other than the sales and use tax.

Rhode Island cigarette tax receipts are comprised of excise taxes collected on the sale of cigarettes, smokeless tobacco (which also includes cigars and pipe tobacco), and a one-time cigarette floor stock tax. The cigarette floor stock tax is imposed only when there is an increase in the excise tax on cigarettes. In FY 2006 and FY 2007 no increase in the cigarette excise tax was passed into law and, as a result, no cigarette floor stock tax revenues were collected in FY 2006 and none are expected for this fiscal year. Total cigarette tax receipts for the first four months of FY 2007 are down 5.9 percent compared to the same period a year ago.

Finally, the change in cigarette consumption is determined. First, the value of the cigarette floor stock tax and smokeless tobacco products tax is netted out of the data. The result is a decrease in Rhode Island cigarette consumption of 6.0 percent for the first four months of FY 2007 versus the first four months of FY 2006.

Other Taxes

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-12.3 %	-3.5 %	-4.0 %

Total other taxes collected through October of FY 2007 totaled \$16.8 million versus \$17.4 million in other taxes collected during the same period last fiscal year, a decrease of \$604,806, or 3.5 percent. Inheritance tax collections totaled \$11.0 million through October of FY 2007, or 6.6 percent above the \$10.3 million collected through the first four months of FY 2006. The Tax Amnesty resulted in an additional \$99,114 in inheritance tax collected in FY 2007. Given the fact that inheritance tax collections are volatile, it is not possible to make any valid comments about this revenue source. Racing and athletics tax collections through October of FY 2007 are down 22.2 percent relative to the same period in FY 2006. Realty transfer taxes are down by 17.3 percent through October of FY 2007 versus October of FY 2006. The other taxes growth estimate is -12.3 percent in enacted FY 2007 over preliminary FY 2006 total other taxes.

Total Departmental Receipts

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.1 %	3.3 %	-2.4 %

FY 2007 year-to-date departmental receipts total \$57.3 million, an increase of \$1.8 million over the amount that was collected last fiscal year at this time. Actual departmental receipts for FY 2007 are up 3.3 percent when compared to receipts collected for the same period a year ago. The FY 2007 growth estimate is 3.1 percent over preliminary FY 2006 departmental receipt collections.

Within the total departmental receipt components, licenses and fees are up \$2.9 million, or 9.2 percent, through October of FY 2007 versus FY 2006 through October. In FY 2007 the interim hospital rate settlement payments to the state have totaled \$1.3 million more than fiscal year-to-date through October 2005. Together with the \$1.8 million increase in aggregate health professional license fees, these receipts account for the growth in licenses and fees.

Fines and penalties are down \$1.3 million through the first four months of FY 2007 versus the first four months of FY 2006. The decrease is primarily due to the unusually large banking enforcement fee of \$760,000 which was received in July 2005 and will not repeat in FY 2007 in addition to the interest and penalties on overdue taxes which are cumulatively higher year-to-date by \$989,020 due to the Tax Amnesty. Court collections were posted in time for the

October Comparative Cash Statements to reflect them for both FY 2007 and FY 2006. Therefore, both years are comparable to each other through October.

Sales and services revenues are down \$356,771 or 7.7 percent, through October of FY 2007 versus the same period last fiscal year. Finally, miscellaneous departmental revenues are up \$611,507, or 6.3 percent, through the first four months of FY 2007 versus the first four months of FY 2006.

Gas Tax Transfer

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	14.0 %	-1.3 %	-1.3 %

The Gas Tax Transfer is down 1.3 percent for FY 2007 through October when compared to FY 2006 for the same period. The preliminary growth rate estimate for the gas tax transfer is 14.0 percent. In both FY 2007 and FY 2006, \$0.01 per gallon of the State's \$0.30 per gallon motor fuel tax is devoted to the general fund

Other Miscellaneous Revenues

	<u>Preliminary Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	95.0 %	131.5 %	131.5 %

Other Miscellaneous Revenues are up 131.5 percent in FY 2007 when compared to the same period one year ago. FY 2007 year-to-date collections total \$293,920 compared to \$126,949 collected at this time last fiscal year. The Attorney General's transfer of \$216,038 in September 2006 from its dormant Consumer Education Escrow account accounts for this increase. The enacted FY 2007 growth rate is 95.0 percent over preliminary FY 2006 collections. The actual year-to-date growth in other miscellaneous revenues is not a surprise given the lack of consistency in typical receipt patterns.

Lottery Transfer

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	11.9 %	30.4 %	4.5 %

The Lottery Transfer to the general fund is up 30.4 percent, or \$23.6 million, in the FY 2007 fiscal year-to-date period compared to the same period last year. In October 2006, the Division of Lottery made an early transfer \$20.0 million that it would normally have transferred in November. After adjusting for this early transfer, the Lottery Transfer to the general fund is up 4.5 percent. There were no changes made to the distribution of video lottery net terminal income (NTI) in the FY 2007 budget. In the first four months of FY 2007, the State's share of video lottery NTI decreased, at -1.2 percent versus the same period in FY 2006. This continues to fall below the preliminary growth rate of 13.8 percent over FY 2006. The transfer to the State general fund from instant and monitor games is up 18.6

percent on for the first four months of FY 2007 versus the same period last year. The preliminary FY 2007 growth rate estimate for instant and monitor games is 4.8 percent.

A handwritten signature in black ink, reading "Rosemary Booth Gallogly". The script is cursive and fluid, with the first name being the most prominent.

Rosemary Booth Gallogly, State Budget Officer
December 1, 2006

STATE OF RHODE ISLAND
Year To Date Revenues

	FY 2006 October	FY 2007 October	Change	Preliminary Estimate
<u>Personal Income Tax</u>	297,994,657	330,799,698	11.0%	5.5%
<u>General Business Taxes</u>				
Business Corporations	19,741,394	30,776,592	55.9%	-26.4%
Public Utilities Gross Earnings	5,151,871	6,202,552	20.4%	3.4%
Financial Institutions	(94,089)	535,595	-669.2%	-255.4%
Insurance Companies	118,135	(225,972)	-291.3%	-0.3%
Bank Deposits	-	50,070	-	7.1%
Health Care Provider Assessment	15,366,594	15,107,208	-1.7%	6.1%
<u>Excise Taxes</u>				
Sales and Use	308,240,319	314,694,172	2.1%	5.8%
Motor Vehicle	12,388,358	11,955,652	-3.5%	-5.0%
Motor Fuel	985,519	377,973	-61.6%	1962.1%
Cigarettes	44,577,536	41,926,735	-5.9%	-2.2%
Alcohol	3,695,222	3,524,988	-4.6%	1.2%
Controlled Substances	-	-	-	-
<u>Other Taxes</u>				
Inheritance and Gift	10,312,780	10,998,419	6.6%	-18.6%
Racing and Athletics	1,218,938	948,288	-22.2%	-5.4%
Realty Transfer	5,908,991	4,889,196	-17.3%	2.8%
Total Taxes	\$ 725,606,225	\$ 772,561,166	6.5%	1.9%
<u>Departmental Receipts</u>				
Licenses and Fees	31,211,491	34,080,810	9.2%	
Fines and Penalties	9,952,762	8,638,415	-13.2%	
Sales and Services	4,652,831	4,296,060	-7.7%	
Miscellaneous	9,675,564	10,287,071	6.3%	
Total Departmental Receipts	\$ 55,492,648	\$ 57,302,356	3.3%	3.1%
Taxes and Departmentals	\$ 781,098,873	\$ 829,863,522	6.2%	2.0%
<u>Other General Revenue Sources</u>				
Gas Tax Transfer	1,654,576	1,633,685	-1.3%	14.0%
Other Miscellaneous Revenues	126,949	293,920	131.5%	95.0%
Lottery Transfer	77,300,000	100,799,490	30.4%	11.9%
Unclaimed Property	-	-	-	-
Total Other Sources	\$ 79,081,525	\$ 102,727,095	29.9%	17.5%
Total General Revenues	\$ 860,180,398	\$ 932,590,617	8.4%	3.8%